

Schedule of Federal Audit Findings and Questioned Costs

**Darrington School District No. 330
Snohomish County
September, 2008 through August 31, 2009**

- 1. Darrington School District did not have adequate internal controls to ensure that it maintained appropriate time and effort records to support payroll costs and that it followed federal cash management requirements.**

CFDA Number and Title:	84.010 Title I, Part A
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	Grant Award No.221849
Questioned Cost Amount:	\$28,650

Background

We reviewed the Darrington School District's internal controls and compliance with regulations over its Title I grant program. For the year ended August 31, 2009, the District spent \$535,448 in grant funds to improve teaching and learning for children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of low-income families.

Description of Condition

Cost Principles

We reviewed payroll transactions to determine whether salaries and benefits charged to the grant were supported by adequate time and effort documentation as required by U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Depending on the number of activities an employee works on, time and effort documentation can be provided in the form of a semi-annual certification or a monthly personnel activity report, such as a timesheet.

We tested 14 employees whose salary and benefits were charged to the grant. We found the District did not maintain adequate time and effort documentation for one employee who worked on multiple cost objectives. The employee completed two monthly timesheets: one for time spent driving a school bus and another for time spent on Title I activities. The Title I timesheet stated the total number of hours worked each day, rather than the actual time worked on Title I and state basic education activities.

The District paid the employee \$41,987 for salary and benefits during fiscal year 2009, \$28,650 of which was Title I funds. The employee stated in an interview with our Office that her work involved all federal grants, not solely Title I. She did not document the time she worked on other federal grants on her monthly personnel activity reports nor did she charge that time to the other grants.

The District did not compare budgeted costs to actual costs quarterly, as required. The District compared actual costs to budgeted distributions based on the monthly activity reports once, at the end of the year.

Cash Management

The District spent \$535,448 in federal Title I funds in fiscal year 2009. The grant funding is paid to the District through the state Office of Superintendent of Public Instruction (OSPI). All districts are required to monitor their requests for grant funding to ensure they do not receive or retain a cash balance that exceeds their actual costs. OSPI allows districts to retain a cash balance not to exceed 7.5 percent of the grant award. The District did not have internal controls over cash management and did not comply with federal cash management requirements.

In October 2009, the District received federal funds totaling \$583,969; its expenses were \$522,368. This resulted in an excess cash balance of \$61,601 (11.6 percent); which exceeds the limit established by OSPI.

Cause of Condition

Cost Principles

The District did not have adequate internal controls to ensure it complied with time and effort requirements. It did not quarterly reconcile actual versus budgeted costs because District employees believed the variance was less than 10 percent throughout the year.

Cash Management

The District did not have internal controls to ensure the reimbursements it requested were for actual costs until it reconciled the amounts at the end of the year. Further, it did not have internal controls to monitor cash balances.

Effect of Condition

Cost Principles

Without proper time and effort records, the District was unable to substantiate the accuracy of the payroll costs charged to the Title I Program in the manner required by the federal granting agency. We are questioning salary and benefit costs totaling \$28,650 that the District charged to Title I.

Cash Management

Without adequate internal controls over cash management, the District cannot ensure it accurately reports federal funds to OSPI or that it adequately monitors funds received in excess of actual expenditures.

The District was reimbursed for \$61,601 in expenses that were not incurred for the Title I program. The District held this excess cash for more than four months and repaid OSPI in January 2010. The District earned interest of approximately \$326 from the excess cash balance. Any interest earned over \$100 is required to be returned to the grantor.

Recommendation

We recommend the District:

- Maintain time and effort records that comply with federal requirements and consult with OSPI for additional guidance.
- Work with OSPI to determine whether federal funds should be repaid.
- Monitor actual costs and reimbursements for compliance with federal cash management requirements.

District's Response

A complete audit of the time and effort records has been conducted to ensure that all employee salaries and benefits charged to the federal grants have appropriate documentation as required by the U.S. Office of Management and Budget Circular A-87. Files have been reviewed for accuracy in schedule, assignment and match to funding source. Employees with multiple-cost objectives were given special scrutiny to ensure that adequate time and effort documentation are maintained.

Auditor's Remarks

We thank the District for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue during our next audit.

Applicable Laws and Regulations

Title 34, Code of Federal Regulations, Section 80.21 – Payment, states in part:

- (a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.
- (b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205

(c) . . . Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

(i) Interest earned on advances...grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix B, Section 8(h), states:

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certifications. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on . . .

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Schedule of Prior Federal Audit Findings

Darrington School District No. 330 Snohomish County September 1, 2008 through August 31, 2009

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Darrington School District No. 330. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: 9/1/07 through 8/31/08	Report Reference No: 1001495	Finding Reference No: 1	CFDA Number(s): 84.027/173				
Federal Program Name and Granting Agency: Special Education Cluster		Pass-Through Agency Name: Washington Office of Superintendent of Public Instruction					
Finding Caption: The District's internal controls are inadequate to ensure compliance with federal procurement requirements for professional services.							
Background: The District spent \$111,024 in federal Special Education grant funds during fiscal year 2008. Of this amount, the District paid \$66,945 to three contractors to provide services for students. The services provided were allowable under the grant but the District did not follow federal procurement requirements when selecting the contractors. The District is required to obtain price or rate quotations from an adequate number of qualified sources for procurement of professional services up to \$100,000. It also is required to maintain documentation of this process. We found the District did not have documentation to show more than one quote was obtained for these services. Although the District was aware of federal procurement requirements, it did not have a system in place to ensure documentation was retained. The District cannot demonstrate that no other vendors could have supplied the necessary services at a more competitive rate.							
Status of Corrective Action: (check one) <table style="width: 100%; border: none;"> <tr> <td style="width: 25%;"><input checked="" type="checkbox"/> Fully Corrected</td> <td style="width: 25%;"><input type="checkbox"/> Partially Corrected</td> <td style="width: 25%;"><input type="checkbox"/> No Corrective Action Taken</td> <td style="width: 25%;"><input type="checkbox"/> Finding is considered no longer valid</td> </tr> </table>				<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> No Corrective Action Taken	<input type="checkbox"/> Finding is considered no longer valid
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Corrective Action Taken:

The Darrington School District, during the 2006-2007 audit period, became aware of the procurement requirement of obtaining price quotes for professional services sought from private contractors in providing special services to the District's special education students.

The Special Services Director with the assistance of the department's support staff, are obtaining price quotes and keeping a file of all documentation related to the process of filling the vacancy.

At the beginning of the 2008-2009 school year, the special services secretary was delegated this task by the Director. We have in our possession the required documentation for the procurement process for the 2008-2009 school year which we believe, establishes that the District is aware of and has internal controls in place to ensure meeting procurement compliance. In response to the discovered vulnerability of safeguarding documentation, the process will continue to be completed by the Special Services Department under the supervision of the District's Business Office.